



Australian Government

New Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2022

3 June 2022

1 Executive Summary

1. The Government thanks the Fair Work Commission's Expert Panel conducting the Annual Wage Review ('the Panel') for the opportunity to make a submission. In this submission, the Government provides updated evidence on the economy, labour market, and low-paid workers to assist the Panel in making its decision.
2. Given the highly unusual and challenging economic conditions, the Government is making a recommendation to the Fair Work Commission in relation to this year's wage decision.
3. The new Government has a different view on the Annual Wage Review to the previous Government. In particular, the direction of the previous Government's submission headed "The importance of low-paid work" does not reflect the priorities of this Government.
4. High and rising inflation and falling real wages are creating cost-of-living pressures, particularly for Australia's low-paid workers. Economic conditions are particularly challenging given inflation is at a 21-year high of 5.1 per cent and is expected to increase further in the near-term due to persistent and compounding supply shocks. The current inflation rate is 2.7 percentage points higher than wages growth as measured by the Wage Price Index (WPI), which means on average, Australians are experiencing the sharpest decline in real wages in 21 years. The National Accounts results released this week provide further evidence of the broad-based domestic price pressures which were clear in the Consumer Price Index (CPI) release for the March quarter 2022.
5. In considering its decision on wages for this year, **the Government recommends that the Fair Work Commission ensures that the real wages of Australia's low-paid workers do not go backwards.**
6. High and rising inflation and weak wages growth are reducing real wages across the economy and creating cost-of-living pressures for low-paid workers. It is critical to ensure that these workers do not bear a disproportionate impact of these challenging conditions.
7. The new Government does not want to see Australian workers go backwards; in particular, those workers on low rates of pay who are experiencing the worst impacts of inflation and have the least capacity to draw on savings.
8. The Government notes that over the past decade, in 9 out of 10 years, the Panel has increased the minimum wage rate in line with, or above, inflation. The largest increase in recent years was in 2018-19 where a 3.5 per cent increase was ordered, when inflation was only 1.9 per cent. This submission does not suggest that inflation should be the only consideration when determining wages.
9. This submission does not suggest that across-the-board, wages should automatically increase in line with inflation. The key driver of real wage growth (excluding inflation) over the longer-term is labour productivity. The current economic circumstances are highly unusual and challenging, and the Government's submission pertains specifically to the low-paid and in the current macroeconomic context.

10. Australia's low-paid workers, many of whom are young, female and in casual employment, are far more likely than higher paid workers to find themselves experiencing financial hardship. Many of these workers made significant contributions in the provision of essential services during COVID-19.
11. Maintaining the relative standard of living of low-paid workers is not expected to have a material impact on employment.
12. Ensuring that real wages for low-paid workers do not go backwards in these circumstances will protect the relative living standards for these workers, prevent further financial hardship and avoid adverse distributional outcomes and broader economic and social risks.
13. This submission is one of the important first steps in the Government's plans to address the impacts of the skyrocketing costs of living for Australian workers and families. It is part of the Government's broader economic plan, calibrated to address inflation by driving productivity growth and expanding the capacity of the economy to alleviate supply side pressures. The Government will do this through investments in cleaner and cheaper energy, in a better-trained workforce with higher participation and in the care economy, digital economy and a future made in Australia.

2 Economy and labour market update

Key Points

- Over the past 12 months, inflationary pressures have significantly increased, and Australia's inflation rate is at its highest in 21 years.
- These inflationary pressures are likely to be more persistent due to the ongoing supply-side constraints, the war in Ukraine and China's COVID-19 outbreak.
- While unemployment is low, this has not yet translated into strong broad-based wages growth.
- While aggregate wages growth is expected to increase further, it remains relatively subdued, and follows nearly a decade of persistently weak wages growth.
- The sharp rise in inflation is creating cost-of-living pressures for Australia's low-paid workers.

14. Over the past 12 months, global and domestic inflationary pressures have significantly increased. These pressures are now expected to be stronger and more persistent, due to compounding global supply shocks. The war in Ukraine and China's COVID-19 outbreak are exacerbating existing strains in global supply chains and significantly driving up global energy and food prices.
15. Domestic headline consumer price inflation increased by 5.1 per cent through the year to the March quarter of 2022, the fastest increase in 21 years. The trimmed mean measure of core inflation also picked up to 3.7 per cent through the year to the March quarter, the highest increase since early 2009. Inflationary pressures have begun to broaden, with prices increasing in 80 per cent of the inflation components in the March quarter.
16. The Reserve Bank of Australia's (RBA) May 2022 Statement on Monetary Policy now forecasts that inflation will peak at around 6 per cent in the second half of 2022.
17. While some external inflationary pressures, such as international shipping costs, appear to have peaked, they remain elevated and other inflationary pressures are increasing. The COVID-19 outbreak and major city lockdowns in China present a significant upside risk to imported goods prices. Domestically, higher wholesale electricity prices could add further pressure to retail electricity prices and headline inflation.
18. Higher inflation is now expected to persist throughout 2022 and into 2023. If, as currently expected, global supply chain pressures dissipate, oil prices moderate and consumption patterns return to a more normal balance between goods and services, headline inflation would be expected to ease over the course of 2023.
19. Wages as measured by the WPI grew by 2.4 per cent through the year to the March quarter. With inflation at 5.1 per cent, this means that on average, real wages have seen the sharpest decline in 21 years. The Government notes that this fall in real wages follows persistently and historically low real wages growth over the past decade.

20. While the Government welcomes recent falls in the unemployment rate, it notes that this has not yet been associated with broad-based wages growth. Assuming global supply factors driving up inflation dissipate as expected, nominal wages growth is expected to begin outpacing inflation.
21. The RBA's May 2022 Statement on Monetary Policy forecast the WPI to grow by 3.3 per cent through the year to the June quarter 2023 and by 3.7 per cent through the year to the June quarter 2024.
22. The stronger than expected rise in inflation has seen consumer prices outpace wages to date, resulting in larger near-term declines in real wages. The near-term pick-up in inflation creates particularly acute cost-of-living pressures on the low-paid.
23. There are also significant economic risks associated with falling real wages. Most notably, reduced capacity to spend could weigh on household consumption with flow-on effects to aggregate demand more broadly.
24. While higher inflation and the anticipated tightening of monetary policy may dampen activity, it is not expected to lead to a substantial increase in the unemployment rate or a deterioration in economic growth.
25. The current economic circumstances are complex and substantial risks remain, including the possibility of more significant and sustained price pressures, or a more substantial slowing in activity.

3. Low-paid workers and the cost of living

Key Points

- Cost-of-living pressures are having a disproportionate impact on low-paid workers in the current environment, with price increases for non-discretionary goods and services outpacing the overall CPI basket.
- On average, low-paid workers experience greater financial hardship, and any declines in their real wages would put their financial wellbeing at greater risk.

26. The current cost-of-living pressures will have a disproportionate impact on low-paid workers.

27. Recent inflationary pressures have been stronger for non-discretionary goods and services, which increased by 6.6 per cent through the year to the March quarter of 2022. Fuel, food and new dwellings contributed nearly 3 percentage points to headline inflation, with fuel rising by 35 per cent in the past 12 months.

28. Low-paid workers have a diverse range of characteristics. In 2020, low-paid workers were more likely to be female, employed on a casual basis and under 30 years of age. Given this, a more substantial increase for those on low wages would be beneficial in assisting to narrow the gender pay gap.

29. With growth in the WPI expected to strengthen over the forecast period, supporting a more substantial increase for low-paid workers will also help maintain relative living standards for the low-paid.